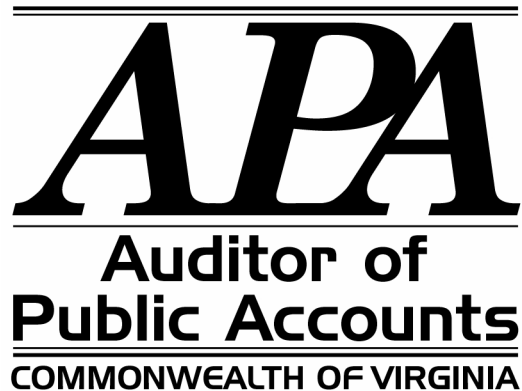


**VIRGINIA BOARD OF ACCOUNTANCY  
RICHMOND, VIRGINIA**

**REPORT ON AUDIT  
FOR THE YEAR ENDED  
JUNE 30, 2002**



## **AUDIT SUMMARY**

Our audit of the Virginia Board of Accountancy for the year ended June 30, 2002, found:

- the financial statements are presented fairly, in all material respects;
- no internal control matters that we consider material weaknesses; and
- no instances of noncompliance required to be reported under Government Auditing Standards.

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MEMBERS OF THE VIRGINIA BOARD OF ACCOUNTANCY

May 30, 2003

The Honorable Mark R. Warner  
Governor of Virginia

The Honorable Kevin G. Miller  
Chairman, Joint Legislative Audit  
and Review Commission

Board Members  
Virginia Board of Accountancy

We have audited the accounts and records of the **Virginia Board of Accountancy** as of and for the year ended June 30, 2002, and submit herewith our complete reports on financial statements and compliance and internal control over financial reporting.

#### INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities and Special Revenue Fund (a major fund) of the Virginia Board of Accountancy as of and for the year ended June 30, 2002, which collectively comprise the Board's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the basic financial statements of the Virginia Board of Accountancy are intended to present the financial position and the changes in financial position of only that portion of the governmental activities and the aggregate remaining fund information of the Commonwealth of Virginia that is attributable to the transactions of the Board. They do not purport to, and do not, present fairly the financial position of the Commonwealth of Virginia as of June 30, 2002, and the changes in its financial position and

its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the Special Revenue Fund of the Virginia Board of Accountancy as of June 30, 2002, and the respective changes in financial position thereof and the respective budgetary comparison for the Special Revenue Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 11, the Board has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, as of June 30, 2002.

The management’s discussion and analysis on pages 4 through 8 is not a required part of the basic financial statements but is supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

#### INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements of the Virginia Board of Accountancy as of and for the year ended June 30, 2002, we considered internal controls over financial reporting and tested compliance with certain provisions of laws, regulations, contracts, and grants in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards.

##### Compliance

As part of obtaining reasonable assurance about whether the Board’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

##### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Board’s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

The "Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting" is intended solely for the information and use of the Governor and General Assembly of Virginia, the Virginia Board of Accountancy, and management, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

#### EXIT CONFERENCE

We discussed this report with management at an exit conference held on June 18, 2003.

AUDITOR OF PUBLIC ACCOUNTS

WHC:kva  
kva:

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of the Virginia Board of Accountancy, we offer readers of the Board's financial statements this narrative overview and analysis of the financial activities of the Virginia Board of Accountancy for the fiscal year ended June 30, 2002.

### **Financial Highlights**

The Virginia Board of Accountancy became a separate state agency and supervisory board effective July 1, 2001. During the previous year, the Board was administered under an umbrella operation of state government. The primary goals of the Board in seeking to become a separate state agency were to provide more effective service to the public and the Board's regulants and to operate more efficiently in order to minimize the cost of regulation for the Board's regulants.

The assets of the Virginia Board of Accountancy exceeded its liabilities at the close of the most recent fiscal year by \$697,241 (net assets). Of this amount, \$611,677 (unrestricted net assets) may be used to meet the Board's ongoing obligations to citizens and creditors.

At the close of the current fiscal year, the Board's Special Revenue Fund reported an ending fund balance of \$614,911, all of which is available for spending at the Board's discretion (unreserved fund balance).

### **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Virginia Board of Accountancy's basic financial statements, which are comprised of three components: (1) the entity-wide financial statements; (2) the fund financial statements; and (3) the Notes to Financial Statements.

*Entity-Wide Financial Statements* - The entity-wide financial statements are designed to provide readers with a broad overview of the Virginia Board of Accountancy's finances, in a manner similar to private-sector business.

The Statement of Net Assets presents information on all of the Board's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Board is improving or deteriorating.

The Statement of Activities presents information showing how the Board's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (i.e., earned, but unused vacation leave).

The entity-wide financial statements can be found on pages 10-11 of this report.

*Fund Financial Statements* - A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Virginia Board of Accountancy, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds are used to account for essentially the same functions as governmental activities in the entity-wide financial statements. However, unlike the entity-wide financial statements, governmental

fund financial statements focus on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the entity-wide financial statements. By doing so, readers may better understand the long-term impact of the Board's near-term financing decisions. Both the Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Board has one governmental fund, which is a special revenue fund. Information on this fund is presented in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance.

The basic governmental fund financial statements can be found on pages 12-14 of this report.

#### Entity-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Virginia Board of Accountancy, assets exceeded liabilities by \$697,241 at the close of the most recent fiscal year.

By far, the largest portion of the Board's net assets (99 percent) is unrestricted, meaning they may be used to meet the Board's ongoing obligations to citizens and creditors. Only one percent of the Board's net assets reflects its investment in equipment. The Board uses this equipment to provide services to citizens; consequently, these assets are not available for future spending.

#### Virginia Board Of Accountancy's Net Assets

	<u>2002</u>
Assets:	
Current assets	\$641,660
Capital assets	<u>85,564</u>
Total assets	<u>727,224</u>
Liabilities:	
Current liabilities	26,749
Long-term liabilities	<u>3,234</u>
Total liabilities	<u>29,983</u>
Net Assets:	
Invested in capital assets	85,564
Unrestricted	<u>611,677</u>
Total net assets	<u><u>\$697,241</u></u>



At the end of the current year, the Board is able to report a positive balance for its net assets. This positive balance reflects the degree to which license fees and interest income have exceeded ongoing expenses.

Governmental activities decreased the Board's net assets by \$10,176. Key elements of this change are as follows:

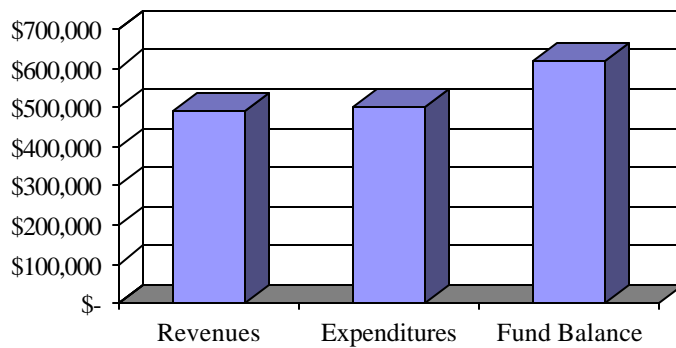
<u>Virginia Board Of Accountancy's Changes In Net Assets</u>	
	<u>2002</u>
Program revenues:	
Charges for services	\$459,358
General revenues:	
Interest income	23,024
Monetary penalties	<u>6,200</u>
Total revenues	488,582
Licensing and enforcement expenses	<u>419,338</u>
Increase in net assets before transfers	69,244
Transfers	<u>627,997</u>
Increase in net assets	697,241
Net Assets – July 1, 2001	<u>-</u>
Net Assets – June 30, 2002	<u><u>\$697,241</u></u>

#### Financial Analysis of the Government's Special Revenue Funds

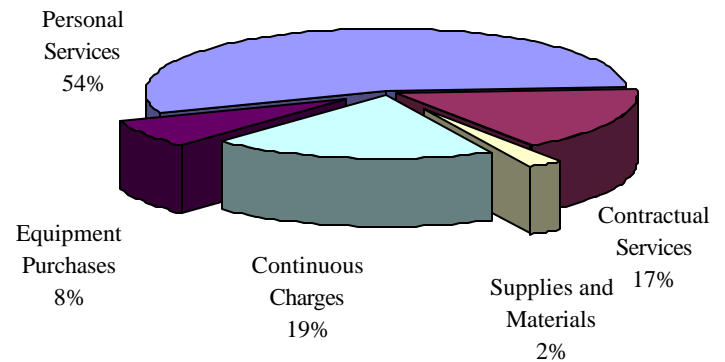
As noted earlier, the Virginia Board of Accountancy uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The focus of the Board's government funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Board's financing requirements and fee structure. In particular, unreserved fund balances may serve as a useful measure of the Board's net resources available for spending at the end of the fiscal year.

### Revenues, Expenditures, and Fund Balance



### Expenditures by Type



At the end of the current fiscal year, the Virginia Board of Accountancy's special revenue funds reported an ending fund balance of \$614,911. This entire amount is unreserved, meaning it is available for spending at the Board's discretion. As a measure of liquidity, it may be useful to compare the fund balance to total fund expenditures. The fund balance represents 123% of total expenditures.

The Board adopts an annual appropriated budget for its special revenue fund. A budgetary comparison statement has been provided for this fund to demonstrate compliance with the budget

### Virginia Board of Accountancy's Changes In Fund Balance on Budgetary (Cash) Basis

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues	\$ 400,000	\$488,582	\$ 88,582
Licensing and enforcement expenditures	<u>586,000</u>	<u>487,531</u>	<u>98,469</u>
Revenues over (under) expenditures	(186,000)	1,051	187,051
Other financing sources (uses)	<u>634,197</u>	<u>627,997</u>	<u>(6,200)</u>
Net change in fund balance	448,197	629,048	180,851
Beginning fund balance	—	—	—
Ending fund balance	<u>\$ 448,197</u>	<u>\$629,048</u>	<u>\$180,851</u>

### Budgetary Highlights

The Board budgeted total expenditures of \$586,000 and there were no budget amendments. During the year, revenues exceeded budgetary estimates primarily due to an increase in the number of new applications and renewals. Actual expenditures were less than budgetary estimates, lessening the need to draw upon cash balances.

### Capital Assets

The Virginia Board of Accountancy's investment in capital assets at June 30, 2002, amounts to \$85,564 (net of accumulated depreciation). This amount consists of computer equipment and software costs for the Board's new computerized licensing system. Additional information on the Board's capital assets can be found in Note 5 on page 19 of this report.

### Economic Factors and Next Year's Budget and Rates

The Virginia Board of Accountancy's major source of revenue is license fees. The number of new applications for licenses increased to 1,461 in the current year. The Uniform CPA examination will be converted from a paper exam to a computer-based exam in early 2004. Some candidates for the exam may be completing the licensing requirements earlier in an effort to avoid the new exam format, helping to explain the increase in the number of new applications.

#### New Licensure Applications Processed

	<u>2002</u>
CPA certificates	891
CPA endorsement certificates	174
Firms	136
CPA reinstatement certificates	<u>260</u>
Total	<u>1,461</u>

The number of individuals holding CPA licenses and the number of licensed firms also increased in the current fiscal year.

#### CPA License Holders And Firm Registrations

	<u>2002</u>
Individuals	16,055
Firms	<u>1,238</u>
Total	<u>17,293</u>

Current year expenditures included substantial (approximately \$120,000) first-year costs for computerized systems, computer hardware, and office furniture and equipment. These costs are non-recurring in nature and expenditures are expected to decrease significantly in the coming year.

All of these factors were considered in preparing the Virginia Board of Accountancy's budget for the upcoming fiscal year. The Board was able to balance the fiscal 2003 budget without appropriating the available fund balance or raising license fees. The Board's licensing fees remain substantially lower than any other state. However, it should be noted that a major enforcement case could easily consume the Board's available fund balance.

BOARD OF ACCOUNTANCY  
STATEMENT OF NET ASSETS  
As of June 30, 2002

	Governmental Activities
<hr/>	
ASSETS	
Cash held by the Treasurer of Virginia (Note 3)	\$ 629,048
Accounts receivable (Note 4)	-
Due from the Commonwealth	12,612
Equipment, net of accumulated depreciation (Note 5)	<u>85,564</u>
Total assets	<u>727,224</u>
LIABILITIES	
Accounts payable	13,192
Accrued salaries payable	13,557
Compensated absences payable (Note 8)	<u>3,234</u>
Total liabilities	<u>29,983</u>
NET ASSETS	
Invested in capital assets	85,564
Unrestricted	<u>611,677</u>
Total net assets	<u><u>\$ 697,241</u></u>

The accompanying Notes to Financial Statements are an integral part of this statement.

BOARD OF ACCOUNTANCY  
STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2002

Functions/Programs	Expenses	Program Revenues Charges for Services	Net Expense (Revenue) and Changes in Net Assets
Governmental activities:			
Licensing and enforcement functions	\$ 419,338	\$ 459,358	\$ 40,020
General revenues:			
Unrestricted interest income			23,024
Monetary penalties			6,200
Transfers from other state agencies			634,197
Transfers to State Literary Fund			(6,200)
Total general revenues and transfers			657,221
Change in net assets			697,241
Net assets, July 1, 2001			-
Net assets, June 30, 2002			\$ 697,241

BOARD OF ACCOUNTANCY  
BALANCE SHEET  
GOVERNMENTAL FUND  
As of June 30, 2002

	<u>Special Revenue Fund</u>
<b>ASSETS</b>	
Cash held by the Treasurer of Virginia (Note 3)	\$ 629,048
Accounts receivable (Note 4)	-
Due from the Commonwealth	<u>12,612</u>
Total assets	<u><u>\$ 641,660</u></u>
<b>LIABILITIES AND FUND BALANCE</b>	
Liabilities:	
Accounts payable	\$ 13,192
Accrued salaries payable	<u>13,557</u>
Total liabilities	26,749
Fund balance:	
Unreserved	<u>614,911</u>
Total liabilities and fund balance	<u><u>\$ 641,660</u></u>
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Total fund balance (per above)	\$ 614,911
Capital assets reported for governmental activities are not financial resources and, therefore, are not reported in the funds.	85,564
Long-term liability for compensated absences is not due and payable in the current period	<u>(3,234)</u>
Net assets of governmental activities (page 10)	<u><u>\$ 697,241</u></u>

The accompanying Notes to Financial Statements are an integral part of this statement.

BOARD OF ACCOUNTANCY  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUND  
For the Year Ended June 30, 2002

	Special Revenue Fund
Revenues:	
Licenses and permits	\$ 459,358
Monetary penalties	6,200
Interest income	23,024
	<u>488,582</u>
Total revenues	
Expenditures:	
Licensing and enforcement functions:	
Personal services	273,530
Contractual services	83,791
Supplies and materials	10,455
Continuous charges	95,848
Equipment purchases	38,044
	<u>501,668</u>
Total expenditures	
Excess (deficiency) of revenues over expenditures	<u>(13,086)</u>
Other financing sources (uses):	
Transfers from other state agencies	634,197
Transfers to State Literary Fund	(6,200)
	<u>627,997</u>
Total other financing sources and uses	
Net change in fund balance	614,911
Fund balance, July 1, 2001	<u>-</u>
Fund balance, June 30, 2002	<u>\$ 614,911</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

BOARD OF ACCOUNTANCY  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE OF GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2002

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Amounts reported for governmental activities in the Statement of Activities are different because:

Net change in fund balance - total governmental fund	\$ 614,911
Government funds report equipment purchases as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which equipment purchases exceeded depreciation in the current period.	85,564
The expense associated with compensated absences reported in the Statement of Activities does not require the use of current financial resources and, therefore, is not reported as expenditures in the governmental funds.	<u>(3,234)</u>
Changes in net assets of governmental activities (page 11)	<u><u>\$ 697,241</u></u>

The accompanying Notes to Financial Statements are an integral part of this statement.



BOARD OF ACCOUNTANCY  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
SPECIAL REVENUE FUND  
For the Year Ended June 30, 2002

	Original/ Final Budget	Actual	Variance Positive/ (Negative)
Revenues:			
Licenses and permits	\$ 400,000	\$ 459,358	\$ 59,358
Monetary penalties	-	6,200	6,200
Interest income	-	23,024	23,024
Total revenues	400,000	488,582	88,582
Expenditures:			
Licensing and enforcement functions:			
Personal services	299,905	271,436	28,469
Contractual services	122,258	72,308	49,950
Supplies and materials	10,000	9,961	39
Continuous charges	53,837	95,829	(41,992)
Equipment purchases	100,000	37,997	62,003
Total expenditures	586,000	487,531	98,469
Excess (deficiency) of revenues over expenditures	(186,000)	1,051	187,051
Other financing sources (uses):			
Transfers from other state agencies	634,197	634,197	-
Transfers to State Literary Fund	-	(6,200)	(6,200)
Total other financing sources and uses	634,197	627,997	(6,200)
Net change in fund balance	448,197	629,048	180,851
Fund balance, July 1, 2001	-	-	-
Fund balance, June 30, 2002	\$ 448,197	\$ 629,048	\$ 180,851

This statement presents comparisons of the legally adopted budget prepared on the cash basis of accounting with the actual data prepared on the cash basis. Actual amounts reported on the modified accrual basis of accounting are different because:

Net change in fund balance (per above)	\$ 629,048
Accrued expenditures on modified accrual basis	(14,137)
Change in fund balance on modified accrual basis (page 13)	\$ 614,911

The accompanying Notes to Financial Statements are an integral part of this statement.

# VIRGINIA BOARD OF ACCOUNTANCY

## NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2002

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Reporting Entity

The Virginia Board of Accountancy regulates the practice of accounting in Virginia, protecting and serving the citizens of the Commonwealth by administering the laws and regulations for their health, safety, and welfare. The Board's major activities include reviewing applications to ensure applicants are competent to enter the profession; administering the Uniform CPA exam; determining continued qualifications for licensure and conducting audits of continuing professional education; and adjudicating enforcement cases and disciplining those who do not follow acceptable, ethical, or professional standards.

A separate report is prepared for the Commonwealth of Virginia, which includes all agencies, boards, commissions, and authorities over which the Commonwealth exercises or has the ability to exercise oversight authority. The Virginia Board of Accountancy is an agency of the Commonwealth of Virginia and is included in the basic financial statements of the Commonwealth.

#### B. Fund Accounting

The activities of the Virginia Board of Accountancy are accounted for in a special revenue fund. The special revenue fund is used to account for transactions related to resources received and used for restricted or specific purposes.

#### C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

*Entity-Wide Financial Statements* – The entity-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on the Virginia Board of Accountancy's financial activities. The Statement of Activities demonstrates the degree to which direct expenses are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues consist of charges to regulants.

The entity-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows. License fees are recognized as revenue when received.

*Governmental Fund Financial Statements* – The financial statements also include separate fund financial statements. The fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Virginia Board of

Accountancy considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. License fees are recognized as revenue when received. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences are recorded only when payment is due.

## 2. BUDGETARY INFORMATION

Budgetary amounts shown in the Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual represent the original budgeted amounts. There were no budget amendments or supplemental appropriations in the current fiscal year. The Virginia Board of Accountancy's budget is prepared principally on a cash basis and represents appropriations as authorized by the General Assembly. Unexpended appropriations at the end of the fiscal year generally lapse. However, they may be reappropriated for expenditure in the following fiscal year. The Governor, as required by the Code of Virginia, submits a budget composed of all proposed expenditures for the state and of estimated revenues and borrowing for a biennium to the General Assembly.

The budget is prepared on a biennial basis; however, the budget contains separate appropriations for each year within the biennial budget, as approved by the General Assembly and signed into law by the Governor. For management control purposes, the budget is controlled at the program level.

Appropriations of special revenue funds may allow expenditures in excess of the original appropriations to the extent that revenues of the funds exceed original budget estimates and such additional expenditures are approved by the Governor through supplemental appropriations.

## 3. CASH WITH THE TREASURER OF VIRGINIA

All state funds of the Virginia Board of Accountancy are held by the Treasurer of Virginia, pursuant to Section 2.2-1800, Code of Virginia, who is responsible for the collection, disbursement, custody, and investment of state funds. Each fund's equity in pooled state funds is reported as "Cash Held by the Treasurer of Virginia" and is not categorized as to credit risk.

## 4. RECEIVABLES AND DUE TO STATE LITERARY FUND

Receivables consist of penalties receivable from regulants found guilty of violating the Board's statutes or regulations. The proceeds from these penalties are deposited into the state's Literary Fund in accordance with Section 19.2-353, Code of Virginia. Consequently, receivables are offset by a corresponding amount Due to State Literary Fund and are not available to meet the Board's current operating needs. All receivables at June 30, 2002, are over one year old and are shown in the allowance for uncollectibles.

Gross receivable s	\$ 22,000
Less: allowance for doubtful accounts	<u>(22,000)</u>
Net receivables	<u>\$ -</u>

5. EQUIPMENT

The following presents capital activity for the year ended June 30, 2002:

	Balance at July 1, 2001	Acquired	Deleted	Balance at June 30, 2002
Equipment	\$ -	\$98,612	\$ -	\$98,612
Less accumulated depreciation	<u>-</u>	<u>(13,048)</u>	<u>-</u>	<u>(13,048)</u>
Equipment, net	<u>\$ -</u>	<u>\$85,564</u>	<u>\$ -</u>	<u>\$85,564</u>

The Board capitalizes all equipment that has an initial, individual cost of \$5,000 and as estimated useful life in excess of one year. The Board also capitalizes computer software acquired or developed for internal use, which is included in the equipment amount above. Equipment is reported at historical cost and is set up in a comprehensive fixed asset system at the time of purchase. Depreciation of the cost of equipment and software costs are provided on a straight-line basis over estimated lives of seven years and five years, respectively.

6. TRANSFERS FROM OTHER STATE AGENCIES

The Board became an independent state agency and separate supervisory board effective July 1, 2001. During the previous year, the Board was administered by the Department of Professional and Occupational Regulation. At the start of the current fiscal year, the Department of Professional and Occupational Regulation transferred the Board's June 30, 2001, cash balance of \$634,197 to the Virginia Board of Accountancy.

7. LEASE COMMITMENTS

The Virginia Board of Accountancy is committed under an operating lease for office space. The lease is for a three year term. The Virginia Board of Accountancy expects that in the normal course of business, the lease will be replaced by a similar operating lease. Rental expense for the fiscal year ended June 30, 2002, was \$17,616.

A summary of future obligations under lease agreements as of June 30, 2002, follows.

Year Ending <u>June 30,</u>	<u>Amount</u>
2003	\$18,144
2004	<u>18,696</u>
Total	<u>\$36,840</u>

8. COMPENSATED ABSENCES

Compensated absences reflected in the Statement of Net Assets represent the amounts of vacation, sick, and compensatory leave earned by the Board's employees, but not taken at June 30, 2002. The amount reflects all earned vacation, sick, and compensatory leave payable under the Commonwealth of Virginia's leave payout policies. Information on the Commonwealth's leave payout policies is available at the statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

<u>Balance at July 1, 2001</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at June 30, 2002</u>
<u>\$ -</u>	<u>\$4,395</u>	<u>\$1,161</u>	<u>\$3,234</u>

9. PENSION PLAN AND OTHER POST RETIREMENT BENEFITS

The Board's employees are employees of the Commonwealth of Virginia. The employees participate in a defined benefit plan administered by the Virginia Retirement System (VRS). The VRS also administers life insurance and health related plans for retired employees. Information related to these plans is available on a statewide level only in the Commonwealth of Virginia's Comprehensive Annual Financial Report. The Commonwealth, not the Board, has overall responsibility for contributions to these plans.

10. RISK MANAGEMENT

The Board is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; non-performance of duty; injuries to employees; and natural disasters. The Virginia Board of Accountancy participates in insurance plans maintained by the Commonwealth of Virginia. The state employee health care and worker's compensation plans are administered by the Department of Human Resource Management and the risk management insurance plans are administered by the Department of Treasury, Division of Risk Management. Risk management insurance includes property, general liability, faithful performance of duty bond, and automobile plans. The Board pays premiums to each of these Departments for its insurance coverage. Information relating to the Commonwealth's insurance plans is available at the statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

11. IMPLEMENTATION OF GASB STATEMENT

GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, issued June 1999, became effective for the fiscal year ending June 30, 2002, and imposes new standards for financial reporting. The primary impact of the implementation of these statements on the Board is a change in the presentation format of the financial statements; the addition of entity-wide financial statements using the economic resources measurement focus and accrual basis of accounting; the addition of a Management's Discussion and Analysis as required supplementary information; and the presentation of Board's original budget, as well as the final budget and actual results in the budgetary basis financial statement. The Board implemented the necessary changes to be in compliance with this statement.

THE VIRGINIA BOARD OF ACCOUNTANCY  
Richmond, Virginia

As of June 30, 2002

The Board consists of seven members, one public member who may be an accountant who does not hold a CPA certificate; one educator in the field of accounting; and five certified public accountants. The Governor appoints each member to a term of four years.

Carole Mulzer Hersch, CPA  
Chairman

Howard L. Rogers  
Vice Chairman

Ellis M. Dunkum, CPA  
Immediate Past Chairman

Professor Jon F. Bischel

Harry D. Dickinson, CPA

Jane M. Little, CPA

Barbara S. Pocalyko, CPA